

COLOURED COVER

What About Wheat?

G. E. Britnell

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WHAT ABOUT WHEAT?

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THE International Wheat Conference at Washington has served to emphasize the melancholy fact that wheat has become a sort of symbol—not of food, but of national and world disorganization. This is a profoundly disturbing fact for Canadians because, although there are four major wheat exporting countries in the world to-day, the wheat problem is a peculiarly Canadian problem. The reason for this is not far to seek. Professor Mackintosh in his book, *Prairie Settlement*, has shown that in terms of population, wheat is almost three times as important for Canada as it is for the great exporting countries of Argentina and Australia—our chief competitors—and at least six times as important as it is in the United States.

It is quite true that even for Canada wheat does not occupy, since the spectacular rise of the mining, pulp and paper, and electric power industries, as important or strategic a position as it did twenty years ago. But very large parts of the economy of Canada—her vast railway systems and her manufacturing industries, to mention only two instances—are still geared to and dependent upon an average production of around 400 million bushels of wheat a year on the broad plains of the prairie provinces. Clearly the maintenance of the Canadian wheat industry in a healthy and

efficient condition is a vital necessity if we are to have a sound and healthy Canada, capable of developing a maximum war effort or of holding her place among the economically and socially progressive nations of the world in times of peace.

But, you will say, the wheat problem has been with us in one form or another for upwards of ten years. Economic nationalism and world depression brought shrinking export markets and ruinously low prices to the great wheat economy of the Prairie Provinces; drought and soil drifting brought complete destitution over wide areas; and crop failures in Western Canada placed a heavy relief burden on the Federal treasury and reacted sharply on the economic life of every province in the Dominion.

However, by 1940, the nature of the Canadian wheat problem had changed again, partly as a result of the almost embarrassing kindness of nature at home, partly as a result of the grim ruthlessness of Nazi conquest in Europe.

Thus, after 12 years of recurring wheat problems—sometimes too much wheat, sometimes too little—1941 found Canada facing the most serious wheat crisis in her history. A few statistics may help to show how the present situation developed and to indicate its gravity. Table I gives, for both the world and for Canada separately, the area sown to wheat in millions of acres, wheat production, wheat and flour exports and the annual carry-over of old wheat from one crop-year to the next (all in millions of bushels), for each of the years from 1922 to the present. (By way of explanation it should perhaps be pointed out that while acreage and production figures are given for calendar years, exports are for "crop" or "cereal" years, which, by general consent, are calculated from August 1st, and that the carry-over or surplus of old wheat is always measured as at the beginning of the new "crop" year, or August 1.)

TABLE I

Acreage, Production, Exports and Carry-over of Wheat, 1922-40*

Year	Acreage (Millions)	WORLD		
		Production†	Exports‡§	Carry-over‡§
		(in millions of bushels)		
1922.....	234	3,204	718	621
1923.....	235	3,519	835	556
1924.....	228	3,127	779	683
1925.....	240	3,380	702	528
1926.....	243	3,494	852	615
1927.....	248	3,673	827	647
1928.....	264	3,996	946	697
1929.....	257	3,584	627	957
1930.....	266	3,847	838	915
1931.....	264	3,865	803	1,000
1932.....	269	3,865	631	999
1933.....	272	3,835	555	1,130
1934.....	265	3,543	541	1,199
1935.....	269	3,601	523	952
1936.....	276	3,584	607	776
1937.....	285	3,852	546	565
1938.....	293	4,605	647	628
1939.....	275	4,270	540	1,134
1940.....	266	4,082	1,357

Year	Acreage (Millions)	CANADA		
		Production	Exports‡§	Carry-over‡§
		(in millions of bushels)		
1922.....	22.4	399.8	279.4	22.1
1923.....	21.9	474.2	346.5	12.2
1924.....	22.1	262.1	192.7	48.1
1925.....	20.8	395.5	324.6	30.7
1926.....	22.9	407.1	292.9	40.1
1927.....	22.5	479.7	333.0	55.6
1928.....	24.1	566.7	407.6	91.2
1929.....	25.3	304.5	186.3	127.2
1930.....	24.9	420.7	258.7	126.6
1931.....	26.4	321.3	207.0	138.6
1932.....	27.2	443.1	264.3	135.9
1933.....	26.0	281.9	194.8	217.7
1934.....	24.0	275.8	165.8	202.9
1935.....	24.1	281.9	254.4	213.9
1936.....	25.6	219.2	195.2	127.4
1937.....	25.6	180.2	93.0	37.0
1938.....	25.9	360.0	167.0	24.5
1939.....	26.8	520.6	207.9	102.9
1940.....	28.7	551.4	230.4	300.7

*Data from Agricultural Branch, Dom. Bureau of Statistics, Ottawa.

†Excluding U.S.S.R. and China.

‡Including wheat flour.

§For crop year beginning August 1.

§At beginning of crop year (August 1).

On the Eve of War

Without going too far back into wheat history or dwelling wistfully on the relatively prosperous 'twenties, it might be useful to look for a moment at what happened in the much less prosperous 'thirties. One of the first things that Table I reveals is the trend, beginning as early as the middle twenties, toward an increased world wheat acreage and, consequently, to increased wheat production. But world consumption of wheat simply failed to keep pace with increased supplies, so that after 1928 surplus world wheat stocks accumulated rapidly and prices fell to the lowest points reached in hundreds of years. However, between 1934 and 1938, the huge stocks were reduced by lower world yields (Canadian yields were far below average) and by the end of the 1937-38 crop-marketing season, both world and Canadian carry-overs were back to normal levels or even lower. As a result, both world and Canadian wheat prices began to rise in 1936 and, although subject to fairly wide swings, were maintained for nearly two years at the highest levels since the fall of 1929. But in 1938 wheat production reached an all-time peak with good yields harvested from a record world wheat acreage. The cash price of No. 1 Manitoba Northern wheat* on the Winnipeg Grain Exchange fell from \$1.49 a bushel in January, to an average of 59 cents in November. As a result governments of each of the four major wheat-exporting countries—Canada, the United States, Argentina and Australia—intervened to support prices paid to growers. At the end of the 1938-39 crop year despite a moderate increase in international trade in wheat, the world wheat carry-over was approaching the 1934 peak. World wheat production in 1939 was second only to the large crop of 1938, and world supplies of wheat were the largest on record.

When the new crop-year opened August 1, 1939, the world

*The price quoted is, as elsewhere in the pamphlet, the price delivered at Fort William or Port Arthur—at "the head of the Lakes." Out of this the farmer must pay a total of about 20 cents a bushel for transportation, elevator handling charges, inspection and grading fees, commissions, etc.

outlook for wheat was far from reassuring. For Canada the picture was scarcely brighter. The carry-over had risen to slightly more than 100 million bushels and the new crop promised to exceed 500 million bushels. The Canadian Wheat Board, acting as the agency of the Federal Government, had paid farmers 80 cents per bushel for the 1938 crop, a price which netted the farmer only about 60 cents a bushel after freight and handling charges had been paid. Yet the Board was faced with a loss of more than \$60 million on the year's operations, and government support of wheat prices would clearly be necessary in marketing the 1939 crop. Under the Wheat Board Amendment Act, 1939, the Board's minimum price or initial payment was reduced to 70 cents per bushel—equivalent to about 50 cents a bushel at the average country elevator—and deliveries from any one producer were limited to 5,000 bushels in any one crop-year. Further Dominion legislation facilitated organization of agencies to market wheat on a co-operative basis.

Before the Blitzkrieg

With the German invasion of Poland and the British and French declarations of war on Germany the open market price of cash wheat on the Winnipeg Grain Exchange rose rapidly—from an average of 55 cents for No. 1 Northern, Fort William, in August to 74 cents in September, 1939. The outlook for the disposal of Canadian wheat appeared to warrant this measure of price recovery. Although no one with any knowledge of the facts expected a repetition of the experiences of 1914-18 when the Allies and the neutral countries in Europe clamoured for North American wheat and paid top prices for it. The world was too well stocked with wheat in 1939 for such conditions of stringency to arise again in the near future and there were other significant differences between 1914 and 1939. Yet it seemed reasonable to expect—in September, 1939—that the demand for Canadian wheat would gradually increase as war interfered with European agriculture and as the necessity for economizing ocean tonnage turned ships to the nearest source of supplies.

A substantial improvement in export sales of Canadian wheat did begin in December, 1939. The open market price at Winnipeg again began to rise and with buying for Canada's largest customer, the United Kingdom, centralized in the hands of the Cereals Import Committee of the Ministry of Food, Canadian wheat prices remained remarkably stable at the higher levels until the middle of May, 1940.

Thus, from January to May, 1940, the open market price of No. 1 Northern wheat, basis in store Fort William, was in the neighbourhood of 90 cents per bushel, or about 20 cents a bushel higher than the initial payment or minimum price guaranteed (up to the maximum of 5,000 bushels) by the Canadian Wheat Board. Encouraged by this situation, prairie farmers, having survived ten years of drought and depression, seeded two million extra acres of wheat in the spring of 1940 (see Table I).

The Blitzkrieg Hits Wheat

The 1940 wheat crop was scarcely in the ground before the export markets for Canadian wheat felt the full impact of the German *Blitzkrieg*. The immediate result of Nazi aggression in the early summer of last year was a sharp fall in Canadian wheat prices, necessitating government intervention to prevent panic and perhaps even complete collapse. The German invasion of Holland and Belgium began on May 10, and from the close of the market on May 11 to the low point during the trading session of May 18, Winnipeg wheat futures dropped 30 cents a bushel. On the latter day, at the request of the Dominion Government, the Winnipeg Grain Exchange set minimum prices below which no trading was to be allowed.

After ten months of hostilities twelve European wheat-importing countries, of which the more important were Belgium, Holland, and the Scandinavian countries, had been cut off for the duration of the war from their usual supplies of wheat and feed grains, causing a drastic shrinkage in the world export market. These countries had absorbed nearly 50 million bushels of Canadian wheat in the year immedi-

ately preceding the outbreak of war, but by mid-summer of 1940 the extensions of German conquest and the exigencies of the British blockade had left tiny Portugal the sole remaining customer for Canadian wheat on the continent of Europe. Apart from the one important market in the United Kingdom, Canada and the other major wheat-exporting countries were left with relatively small, scattered, and uncertain markets in Eire, the West Indies, Central and South America and the Orient as their remaining outlets. The world market and a world price for wheat had virtually disappeared.

Canada Faces a Wheat Glut

Meanwhile nature had smiled on the prairie farmer, and the second largest wheat crop in the history of Canada was coming to maturity. But the 1939 crop had also been a bumper and when the new crop year opened at the beginning of August, 1940, both Canadian and world wheat carry-overs had reached new high levels. In cold statistics this meant that a new Canadian wheat-crop of 550 million bushels was in sight to be added to a carry-over of 301 million bushels of old wheat, or that Canadian stocks in sight to dispose of at August 1, 1940, amounted to the staggering total of 851 million bushels.

The record carry-over and the almost record new crop presented a new set of problems to the prairie wheat grower and the Federal Government. The Canadian Wheat Board had already announced the continuation of a guaranteed minimum price of 70 cents per bushel for No. 1 Northern. The 5,000 bushel limitation on deliveries from any one producer was removed, for with the establishment of minimum trading levels on the Winnipeg Grain Exchange in the summer of 1940, elevator companies had stopped buying wheat (except for the Wheat Board) and producers with more than 5,000 bushels had found themselves deprived of a market for their excess wheat. The continuance of "pegged" prices for cash wheat and futures on the Exchange meant that the "open" market or private grain interests could be expected

to take only a small part of the new crop. It meant also that, unless the limitation on deliveries to the Board were removed, most of the larger farmers might have little chance of disposing of more than the first 5,000 bushels from their 1940 crop. The Federal Governments also provided for a "processing levy" of 15 cents a bushel on all wheat utilized in the manufacture of wheat flour and on all other wheat products for domestic human consumption. In supporting this impost the Minister of Trade and Commerce argued that the Government was faced with the prospect of low prices in a restricted export market and did not feel that the export situation should govern the price paid for wheat by millers supplying Canadian domestic flour requirements. The proceeds of the levy—estimated, on requirements for this purpose of 50 million bushels, at about \$7.5 million—were to be payable by the processors to the Wheat Board and to be used by the Board as part of its regular revenues from the sale of the crop.

Storage Problems

But the real headache for Government and farmer alike was the physical problem of space in which to store 851 million bushels of wheat. The total grain elevator storage space of Canada was equal to just under one-half that figure—424 million bushels—and not all of this space was available for wheat, since oat, barley, rye and flax crops also make demands on storage space.

In order to insure an equitable sharing of the available elevator space by all producers, the Wheat Board was given power to regulate deliveries of all kinds of grain by producers to country, mill and terminal elevators. Provision was made for payment of an allowance for farm storage on that portion of the wheat crop which the Board might find itself unable to accept in the fall months. It should be remembered that normally about 80 per cent of the wheat crop is marketed in the first four months of the crop year—or before December 1. The Board would pay for the wheat stored on farms together with the allowance for storage, only after

delivery could be made to a commercial elevator. Because of the lack of adequate safe storage on farms, no agency, either public or private, would assume the risk of making loans against farm-stored wheat. Although subjected to great pressure, the Dominion Government declined to assume responsibility for any advances on such wheat, but sought to ease the strain by encouraging elevator companies, through generous income tax concessions, to extend their construction programme by building several hundred temporary storage bins or annexes. As a check on possible excess profits, the Board of Grain Commissioners cut the storage rates from one-thirtieth to one-forty-fifth of a cent a bushel a day—the Wheat Board agreeing to allow the farmer the same return, beginning November 1, on all farm-stored wheat subsequently delivered to the Board.

For the purpose of calculating payments on farm-stored wheat the crop season was divided into 22 and 23 day periods, commencing November 1, 1940, and ending July 31, 1941. Table II shows how the price paid by the Board increased one-half cent for each period. The same rate of storage payments applied to all grades of wheat.

Under the "quota" system of deliveries each farmer was required to give a sworn statement of the number of acres he had seeded to wheat and to each of the other grains in 1940. He was then given a "permit book", for recording all deliveries from his declared acreage as these were made. At the beginning of August, 1940, the Wheat Board announced, on the basis of preliminary calculations of available elevator space, a first delivery quota of five bushels per sworn seeded acre for wheat and similar quotas for barley and oats. It was not considered necessary to establish quotas for rye or flax seed. Early in September, as it became apparent deliveries of barley and oats would not exceed the demand, delivery quotas on these grains were removed entirely and, at a number of shipping stations where exceptional local storage space was available or where exceptional conditions had to be met, wheat quotas were increased to 8, 10, 12 or 15 bushels per seeded acre. At the middle of September the

general wheat delivery quota all over Western Canada was increased from 5 to 8 bushels per seeded acre. However, since banks and elevator companies still declined to lend money on farm-stored wheat, restricted deliveries in the fall months necessarily meant that the average farmer's ability to pay harvesting expenses, taxes, and other debts or to make new purchases was seriously impaired.

TABLE II

**Wheat Board Schedule of Payments for Farm-Stored Wheat,
1940-41***

Time of Delivery to the Wheat Board	Fixed Price No. 1 Northern Ft. William Farm Storage Fixed Price & Vancouver Payment Plus storage		
	(cents per bushel)		
Nov. 1 to Nov. 22.....	70	$\frac{1}{2}$	70 $\frac{1}{2}$
Nov. 23 to Dec. 15.....	70	1	71
Dec. 16 to Jan. 7.....	70	$1\frac{1}{2}$	71 $\frac{1}{2}$
Jan. 8 to Jan. 30.....	70	2	72
Jan. 31 to Feb. 22.....	70	$2\frac{1}{2}$	72 $\frac{1}{2}$
Feb. 23 to March 17.....	70	3	73
March 18 to April 9.....	70	$3\frac{1}{2}$	73 $\frac{1}{2}$
April 10 to May 1.....	70	4	74
May 2 to May 24.....	70	$4\frac{1}{2}$	74 $\frac{1}{2}$
May 25 to June 16.....	70	5	75
June 17 to July 8.....	70	$5\frac{1}{2}$	75 $\frac{1}{2}$
July 9 to July 31.....	70	6	76

*Canada House of Commons Debates, November 22, 1940, p. 374.

Through October and November, as wheat moved into export or domestic use and elevator companies completed construction of temporary bins providing an additional 60 million bushels of storage space, the Wheat Board proceeded with the enlargement of wheat delivery quotas at individual shipping points and at the end of November raised the general delivery quota to 10 bushels per acre. By December 13, when the general quota was increased to 12 bushels, the quota system had allowed western farmers to deliver 264 million bushels and although this was nearly 100 million less than deliveries to the same day in 1939, the pressure on farm storage facilities and on the farmer's finances had been eased substantially. Deliveries continued at a reduced rate throughout the winter months. As an increased export movement of wheat opened up storage in eastern Canada,

the general delivery quota was raised to 15 bushels early in March and to 20 bushels early in April, 1941. Eventually, on April 21, after deliveries under the quota system had reached 354 million bushels, the Wheat Board announced that all elevator points in Western Canada had been made open-delivery points, indicating that all wheat quotas had been lifted. The Board stated that while space in country elevators might not enable farmers to complete delivery of remaining wheat supplies immediately it was anxious to fill all available space and avoid any late-season rush which might make it physically impossible to handle all the 1940 wheat crop before August 1, 1941, when the Board's initial price would revert to 70 cents per bushel. At the time of this announcement marketable wheat still on farms was probably in the neighborhood of 120 million bushels.

Restriction of Production

The operation of the quota system naturally presented certain difficulties and more than one farmer discovered that his hypothetical quota of 8 or 10 or 12 or 20 bushels meant little as against the physical fact of country elevators plugged to the roof with his neighbors' wheat. Yet it is safe to say that the quota device worked much more smoothly and satisfactorily than the Dominion Government, the Wheat Board, the elevator companies, or the wheat producers themselves ever thought possible. In addition it provided the Dominion Government and the Wheat Board with detailed information on the seeded acreages of nearly a quarter of a million western farms, invaluable in both the determination and administration of future government wheat policy. Finally, successful operation of the quota system of deliveries suggested that quotas may be an indirect but effective instrument for control of production without involving any compulsory reduction of acreage.

War conditions and the situation created by the sudden loss of the continental European market were bound to force some government restriction of Canadian wheat production. But these very circumstances have made such

restriction much easier to bring about. For whereas in peace time the wheat producer could always hope for relaxation of trade barriers and criticize the government for not taking active measures to promote sales, today every prairie farmer knows that Europe is blockaded and that no restoration of continental markets for Canadian wheat is possible until the end of the war. Under such circumstances the farmer can be induced to accept the principle of marketing restrictions for which familiarity with operation of the quota system of deliveries has prepared him.

For the past year, at least, Canadian wheat statistics have pointed, with harsh urgency, to the necessity for some curtailment of wheat production. It is true that despite the loss of continental markets after May, 1940, Canadian exports of wheat and wheat flour at 208 million bushels for the crop year 1939-40 were well maintained, and that from August 1, 1940 to May 31, 1941, total clearances of wheat and flour were estimated at 175 million bushels, which is nearly 7 million bushels more than in the same period the previous year when a large part of the continental market was still open to trade. For Canada's nearness to the United Kingdom gives her a tremendous advantage over her chief competitors at any time when economy of shipping space becomes a factor of importance.

In September, 1939, British mills were required, by Government order, to mix not *more* than 10 per cent of Canadian wheat in their grist. By February, 1940, they were required to mix not *less* than 60 per cent Manitobas; by May, 1941, shipments of Canadian wheat and flour to Great Britain were so large as to suggest that British millers must be making flour almost exclusively from Canadian wheat and that Britain was building up reserve stocks against emergencies. Thus, although United States wheat and flour exports have dwindled to a mere trickle, still Broomhall, the Liverpool grain trader, reports that over 70 per cent of the total world shipments of wheat and flour in the crop-year 1940-41 originated in North America as against less than 40 per cent in each of the crop-years 1938-39 and 1939-40. Yet

Canadian wheat and flour exports for the crop-year 1940-41 did not exceed 230 million bushels. The domestic market, including utilization for human consumption, seed requirements, and feed for livestock and poultry, absorbed another 132 million bushels. This means that export and domestic markets combined absorbed only about 70 million bushels more than the carry-over from the 1939 crop, leaving surplus stocks equivalent to most of the enormous 1940 wheat crop on hand, unsold, at the beginning of the new crop-year, 1941-42. Since most of the carry-over is owned by the Wheat Board it represents an investment by the Dominion Government of about \$350 million plus annual carrying charges of nearly \$50 million.

It is estimated that as a result of the construction of annexes, country elevator capacity has increased from 190 million at the beginning of 1939 to over 300 million bushels at the present time. In addition, in February of this year the federal government made arrangements with elevator companies to construct an additional 56 million bushels of temporary terminal storage facilities to supplement existing country, mill and temporary country annex space. But the 480 million bushel carry-over from the 1940 crop occupies most of this storage capacity. Accordingly, the Wheat Board has found it necessary to announce an initial delivery quota of 5 bushels per "authorized" acre for wheat from the 1941 crop. Since "authorized" acres, as will appear below, are calculated for the average farmer on the basis of 65 per cent of his 1940 wheat acreage, this initial quota is equivalent to a quota of $3\frac{1}{4}$ bushels in 1940. In view of other war requirements no further construction of temporary country or terminal elevator space is contemplated; so no further elevator space for the new crop is likely to be available except as wheat is taken out of storage for domestic consumption or export.

Wheat Prices

As for prices, little information has been available for the past year on the proceeds of export sales of Canadian

wheat to Great Britain. On June 4, 1940, the Minister of Trade and Commerce announced that the Canadian Wheat Board had made a direct sale of 50 million bushels of wheat to the Cereals Import Committee "at a price considerably above the present market". On August 2, the Minister reported the sale of "a further 100 million bushels . . . at a price considerably above the present market". Since it was stated by the Minister (in the debates last year on the processing levy of 15 cents per bushel on wheat used for human consumption in Canada) that one reason for the tax was the Government's desire to make the domestic price commensurate with the price being paid by Britain, it seems probable that the Cereals Import Committee paid in the neighborhood of 85 cents per bushel (basis No. 1 Northern, Fort William) on these transactions. On May 13, 1941, the Minister disclosed the sale of a further 120 million bushels, "the largest single wheat transaction in the history of the world's grain trade . . . for delivery during the period ending May, 1942," but, although pressed, he did not say the price received was above market levels. Apparently satisfied with direct selling to the British authorities, the Wheat Board does not seem to have been offering wheat on the "open" market during the past year. Sales of wheat by farmers on the "open" market—at times when "open" market prices were above Board prices—are estimated this year, as last, at about 20 per cent of total deliveries and have probably gone to fill the requirements of Canadian mills and of exporters to neutral countries.

Ottawa's 1941 Policy

It was against this general background—although before the unexpected increase in Canadian wheat exports in April and May of this year—that the Dominion Government framed its wheat policy covering both the production and farm marketing phases of the 1941 crop. On March 12, 1941, the Minister of Trade and Commerce announced in the House of Commons that, in the opinion of the Government, "we have reached the limit of the volume of wheat reserves

which should be carried". He went on to state that with prospects for the commercial disposition of Canadian wheat not exceeding 50 million bushels in the domestic market and 180 million bushels through export in the 1941-42 crop-year, deliveries "to the Wheat Board, on the open market or otherwise" would be limited to 230 million bushels for the whole of Canada. Deliveries would be regulated by a quota system based on production from 65 per cent of the 1940 seeded wheat acreage. The first quota would be a general one allowing delivery of the same quantity of wheat per acre from every farmer. Subsequent quotas would be based on the 1941 yield for the farmer's shipping point. Every attempt would be made to insure that the plan would be equitable as between farmers and as between areas. The Dominion Government, through the Wheat Board, would continue the guaranteed minimum price or initial payment of 70 cents per bushel on wheat delivered—up to the maximum of 230 million bushels—during the crop year 1941-42. Likewise the Board would continue to pay storage to producers on the same basis as in 1940-41 "but only on the undelivered portion of the 230 million bushels". The processing levy of 15 cents per bushel on wheat milled for domestic consumption would be continued.*

On the side of production and as part of the Government's wheat policy, the Minister of Agriculture followed his colleague on the same day with a statement of the means by which the Government hoped to compensate farmers for the anticipated loss of income resulting from restrictions on wheat deliveries. He argued that it was not the Government's "intention to pay farmers for not growing wheat or to compel them to reduce acreage," but he urged that "farmers keep before them an objective of not more than 65 per cent of last year's acreage". Assuming normal yields in 1941, Mr. Gardiner pointed out that it would be necessary to reduce the 1941 wheat acreage by 9 million acres from the 1940 record of 28.7 million acres in order to cut com-

*This levy was removed by the Government on July 31, 1941, the chief reason given being the necessity of forestalling a threatened rise in bread prices.

mercial production (exclusive of farm seed and feeding requirements) to 230 million bushels. The Minister declared that, instead of paying a higher price for the deliverable portion of the 1941 wheat crop, the Government stood prepared to compensate each farmer in the Prairie Provinces who reduced his 1941 wheat acreage below his 1940 acreage and who summerfallowed or sowed to coarse grains or grass the acreage taken out of wheat. The scale of bonus payments offered was as follows:

(1) The sum of \$4.00 an acre for summerfallowing the reduced wheat acreage or any part of it;

(2) The sum of \$2.00 an acre for seeding to coarse grains or grass, on lands not summerfallowed, the reduced wheat acreage or any part of it;

(3) The additional sum of \$2.00 in respect of each acre which was summerfallowed or sown to coarse grains or grass in 1941 and which is in grass or rye on July 1, 1942.

By way of definition it was stated that 'summerfallow' means the cultivation of fallow land prior to and including July 31, 1941, in such a way as to conserve soil moisture or to prevent soil drifting, or both; 'Coarse grains' means barley, oats, rye, corn, peas, flax and millet; 'Grass' means all grasses, clovers and alfalfa". A sworn statement of acreage sown to wheat and other grains was to be required before any claim would be paid—payments to be made as soon as possible after July 1, 1941. Subsequently, regulations to take care of cases which do not fall into normal categories, to safeguard the rights of tenants and landlords, and to prevent abuses were drafted. The parliamentary appropriation provided for payments to farmers and for costs of administration of the wheat acreage reduction plan was \$35 million.

Purposes of the Government's Policy

The Government's position, according to Mr. Gardiner, is that "the 1941 wheat policy is a temporary measure to deal with the problem of surplus wheat caused by two bumper crops, and a shrinkage in the possible outlets for

Canadian wheat." The Minister of Agriculture, speaking in the course of the parliamentary debates on the Government's policy, emphasized its emergency nature:

"It does not make any difference what branch of agriculture we are dealing with, whether it be wheat, or livestock, or dairy products; no great national long-term policy can be decided upon under conditions such as the world is passing through today. The policy which is decided upon must be one which will be put into effect for the season through which we are passing, and probably it will have to be varied even before the season is over to meet situations which develop from the fact that we are at war. . . . We are confronted at this time only with the problem of 1941, and we are attempting to deal only with that problem of 1941. . . . We are attempting to create a situation where the difficulties will not be quite so great as they might be if something were not done in the matter."

The policy of diverting western wheat acreage to the production of coarse grains, particularly oats and barley, has been defended in terms of the increasing livestock population of Canada, the doubling of bacon and cheese exports to Britain since the beginning of the war, and the improved domestic markets for butter and meat as more Canadians find work and wages in war industries. Any shift of wheat acreage to grass serves the same purpose and in addition is more likely to mark a permanent and beneficial change in land utilization. Furthermore, it may be argued, in the light of increased wheat sowings in "park-belt" areas between 1935 and 1940, that a policy under which wheat receives a guaranteed minimum price and coarse grains and grass an acreage bonus may divert western agriculture less from its natural course than a policy under which wheat alone is given government support. Implicit in the Government's policy, however—and particularly in the encouragement to summerfallow an extended acreage in 1941 which may normally be expected to produce large supplies of wheat and other grains next year—would appear to be the assumption that by 1942 the international wheat picture will be

brighter and the restoration of the free market to a hungry Europe appreciably closer.*

Certain phases of the Government's 1941 wheat policy have been subjected to vigorous criticism. Since large reserves of easily-stored food are vital to the successful prosecution of the war by Canada and Great Britain, there has been full agreement that the Canadian wheat carry-over of half a billion bushels anticipated at the close of the 1940-41 crop-year should be carried as a wartime reserve. At the same time, prairie governments, the Wheat Pools, and western public opinion generally recognize the wisdom of limiting deliveries from the 1941 wheat crop to the probable requirements of domestic and export markets during the next crop year. But prairie governments and farm organizations had agitated and hoped for some assistance in the form of a higher guaranteed price to compensate for reduced deliveries and rapidly increasing costs. These agencies had all urged:

(1) An increase in the Wheat Board price from 70 to 85 cents per bushel for the deliverable part of the 1941 crop;

(a) An increase in the processing levy on wheat used in domestic consumption from 15 to 50 cents a bushel, the proceeds of the levy to be returned to the farmer;

(3) Financial support from the federal government in the construction of farm storage facilities;

(4) Cash advances to farmers against the deliverable portion of the 1941 crop.

The new wheat policy offered instead a measure of compensation in return for a drastic cut in wheat acreage. The result was that while western groups protested that the proffered compensation was both inadequate and inequitable

*See *Canada's Wheat Problem*, published by Authority of the Hon. James A. MacKinnon, M.P., Minister of Trade and Commerce, April, 1941. "Victory for the Democracies means the re-establishment of international trade, and the opportunity for free peoples to carry on the occupations which they prefer and at which they are most proficient." (p. 15); see also *A Plan to Reduce Wheat Acreage and Make More Money Available for Necessary War Supplies* printed under Authority of the Hon. J. G. Gardiner, Minister of Agriculture, and *Less Wheat in 1941 Will Help Win the War* (Ottawa, King's Printer, 1941).

and that the proposed changes in production were in many cases uneconomic, eastern farmers displayed a lively apprehension over bonuses on western coarse grains and their possible repercussions on the price structure of Eastern agriculture.

Changing Crops in the West

Nevertheless, the response of western farmers to the Government's scheme for reducing wheat acreage has been striking. In May, the Dominion Bureau of Statistics estimated a probable decrease of 25 per cent, or a little more than 7 million acres, in Canadian wheat acreage in 1941. According to the Bureau "this reduction represents virtually an unparalleled individual effort on the part of farmers to adjust their production in the light of the existing wheat situation, the nearest approach being the 20 per cent reduction in wheat acreage effected by United States growers in the autumn of 1938 and spring of 1939." The Bureau estimated that there would be an increase of 4 million acres (25 per cent) in the area to be summerfallowed; of 1.5 million acres (12 per cent) in oat sowings; of 1.1 million acres (24 per cent) in barley. Taken together these increases in summerfallow and coarse grains would practically compensate for the expected decrease in the wheat area. With most of the 1940 grass seed crop already disposed of to United States purchasers and in view of the relatively low rate of bonus provided under the government plan, little increase in the acreage sown to grass could be expected in 1941. The second official estimate of the Dominion Bureau of Statistics issued at the end of July was slightly more conservative, placing the western wheat acreage reduction at 22.3 per cent. Figures released early in July by the Minister of Agriculture on the basis of farmers' *preliminary* (unsworn) applications for payments under the government's plan, indicated that the government's goal of a 35 per cent reduction had been achieved, but final, sworn applications will probably bring these figures more closely into line with the estimates of the Bureau of Statistics.

The greatest shift from wheat acreage to summerfallow and coarse grains has naturally taken place in Manitoba and the park belt areas of northern Saskatchewan and Alberta where greater diversification is practicable. Speaking in the House of Commons last spring the Minister of Agriculture was doubtless thinking of the semi-arid plains of the true wheat economy, when he pointed out that, "it is not only difficult for farmers in the wheat-growing area of Canada to change from wheat growing to any other occupation, but in many of those areas it is almost impossible for them to do anything else to advantage but grow wheat". In such areas many of the better farmers have been in the habit of summerfallowing one-half of their land each year, and intensive specialization in wheat as compared with other grains is a result of the higher drought-resisting capacity of wheat. It follows that while diversion—or return—of wheat acreage to the production of oats, barley and forage crops may be highly desirable in the park belt, the compensations of the bonus scheme cannot be distributed equally over the different soil and climatic zones which make up the economy of the prairie provinces.

Position of the Wheat Farmer

It seems clear that the prairie farmer, and particularly the Saskatchewan farmer (see table III), is faced with a drastic decline in both *cash* and *real* income. In the crop-year 1940-41, wheat sales of approximately 460 million bushels brought an income of nearly \$250 million. In the current crop-year only 223 million bushels (the western share of the 230 million bushels which the Government has agreed to accept) can be marketed to yield approximately \$120 millions. This will be the smallest income from wheat since 1933. As partial offsets against the drop of about \$130 million in wheat income must be credited probable bonus payments of at least \$22 million (on the basis of the Bureau of Statistics higher estimate, \$16 million for summerfallowing 4 million acres taken out of wheat and \$6 million on 3 million acres of former wheat land seeded to coarse grains

in 1941), plus any increased revenue from marketing or utilization of the crop from an additional 3 million acres of coarse grains. With higher prices and increased marketings of livestock and livestock products, the non-wheat income which amounted to \$148 million in the calendar year 1940, will probably show a substantial improvement in 1941.

TABLE III

Cash Income from the Sale of Farm Products in the Prairie Provinces, 1926-40*

Calendar Year	Cash Income of the Prairie Provinces		
	Wheat	Livestock & Livestock Products (in millions of dollars)	All Products
1926.....	389.3	94.8	539.6
1927.....	364.8	93.6	517.1
1928.....	440.7	98.1	612.4
1929.....	323.6	105.6	484.9
1930.....	158.7	79.2	264.8
1931.....	92.1	58.8	170.4
1932.....	111.2	40.8	169.0
1933.....	109.0	44.8	172.0
1934.....	136.3	63.6	228.7
1935.....	141.7	76.0	240.9
1936.....	134.3	87.1	256.4
1937.....	130.9	109.1	278.1
1938.....	174.0	83.7	285.3
1939.....	213.7	93.1	336.9
1940.....	178.9	117.2	326.8

Cash Income from Wheat as Percentage of Total Cash Income

Calendar Year	Man.	Sask.	Alta.	Prairie Provinces
1926.....	46.6	83.1	66.7	72.1
1927.....	40.5	80.2	69.1	70.6
1928.....	41.9	80.2	71.1	72.0
1929.....	40.4	75.9	64.9	66.7
1930.....	40.5	70.2	56.2	59.9
1931.....	30.2	63.1	55.4	54.1
1932.....	46.7	75.1	63.7	65.8
1933.....	48.5	72.0	61.0	63.4
1934.....	47.4	66.8	58.3	59.6
1935.....	33.0	69.0	57.1	58.8
1936.....	36.6	63.0	45.8	52.4
1937.....	46.7	42.0	50.7	47.1
1938.....	45.5	71.2	61.3	61.0
1939.....	45.0	77.4	55.4	63.4
1940.....	35.1	69.6	47.1	54.8

*Sources: *National Income*, Appendix 4 to the *Report of the Royal Commission on Dominion-Provincial Relations* (Ottawa, 1939); *National Income, 1937-1940*; *Dominion-Provincial Conference, 1941* (Ottawa, 1941; *Monthly Review of the Wheat Situation, March, 1941*.

During the current season, wheat and other crops have suffered great damage over wide areas from excessive heat and drought so that wheat available for sale from the reduced wheat acreage may not exceed the western quota of 223 million bushels. Yet, whatever the final outturn, it appears doubtful whether total farm income in the prairie provinces in the crop-year 1941-2 can be expected to reach the "minimum" of \$325 million suggested by the Minister of Agriculture as necessary to the maintenance of the western economy.

Of even more ominous significance is the alarming increase in farm operating and living costs. For now the Western farmer has fewer dollars and in addition he has found that each dollar will purchase much less in terms of things he must buy than a dollar would a year or two years ago. Thus, truly, is the farmer ground between the upper and the nether millstone. The human costs are bound to be heavy, for in an area which has for more than a decade shown all the marks of a chronically depressed economic region a reduction in cash income in a period of relentlessly rising costs must be reflected immediately in worn-out equipment and unrepaired houses, a mounting burden of private and public debt, a worsening of creditor-debtor relationships with all the consequent social, economic, and political frictions, and a further sharp decline in the standard of living of the agricultural population.

Prospects of International Trade in Wheat

Thus, the prospects for Canadian wheat and the Canadian wheat-grower in the immediate future are by no means rosy. On July 10th, this year, in opening the Washington Wheat Conference, Sumner Welles, Acting Secretary of State, warned that within a year wheat surpluses totalling one and one-half billion bushels may hang over the international market. Actually, at the opening of the new crop year on August 1, 1941, the carry-over stocks of the four major wheat-exporting countries showed a net increase of more than 300 million bushels over the previous year. Although a material reduction in the Canadian harvest this year is

expected to result from the curtailment of wheat sowings and the excessive heat, new crop estimates for the United States are more than 135 million bushels higher than last year's large crop, from approximately the same acreage. The outlook for the Argentine crop is better than usual with very little reduction of acreage reported. The outlook for the Australian crop is less favorable than for the Argentine but much better than the Australian crop last year. Yet, with a new record world carry-over and with production in the major exporting countries continuing at a high level, prospects for any increase in international trade in wheat over the 450 million bushels estimated for the crop year, 1940-41, appear extremely remote.

Canada will probably continue, through the crop-year which has just opened, to get the lion's share of whatever international trade in wheat still survives. Our proximity to British ports puts us in a strong position to retain our present hold on the British market but we do not know how much wheat the United Kingdom will want from us next year. 160 million bushels might be a fair guess at British requirements of Canadian wheat in the new crop year. We may also hope, on the basis of our past experience, to sell from 25 to 30 million bushels of wheat in Eire, the West Indies and South America. Our domestic market is the most stable and will probably absorb another 125 to 135 million bushels by the end of July, 1942. We would certainly be unwise to count on any large volume of wheat exports to Russia or on the discovery of any new industrial uses for wheat. Therefore, on a realistic appraisal of the situation we cannot expect any substantial reduction in our present large holdings of wheat during the crop-year 1941-42.

War has intensified, just as preparation for war may be said to have precipitated, if not created, the problem of export markets for Canadian wheat. The studies of the Food Research Institute have shown that comparisons with conditions prevailing during and after the last war have little usefulness in the light of vastly altered circumstances, supplies, and techniques. It may be readily conceded that any

future the prairie wheat economy may have is linked with the success of British and Allied arms and that an early and successful termination of the conflict might help to ease the immediate pressure. But the roots of the wheat problem go deep and it seems most unlikely, remembering modern trends in world population, in world wheat production and in per capita wheat consumption, that the outcome of the war will provide an easy or permanent solution to the recurring problem of Canadian and world wheat surpluses.

It is with this post-war situation that representatives of the "big four" wheat exporting countries of the world and Great Britain, the sole remaining wartime importer of any size, have been chiefly concerned at the Washington Conference this year. So long as the war continues, Canada, with the approval of the United States, may expect to enjoy a virtual monopoly of the British market but the return of peace would change the picture completely. Drastic dislocation and a ruinous competitive scramble to unload burdensome surpluses might easily follow. Thus, although the proceedings of the conference have been secret, press releases suggest that an agreement—proposing fixed prices, production or acreage control, and export marketing quotas for the four large exporting countries—has been discussed and referred back to the governments concerned for consideration. Such an agreement for joint action offers possibilities of cash sales on a fixed price basis to nations which can pay; of loans for wheat purchases to those European nations which are able to make partial payments and where there is some hope of future repayment; and finally straight gifts of wheat to the nations completely prostrated, physically and financially, by the war. An agreement of this nature, in addition to its stabilizing effects on the world wheat market, might also be a factor in hastening the end of the war and in providing the basis for a lasting and durable peace.

This is Not Just a Wartime Problem

In conclusion, it should be pointed out that any long-run wheat policy which Canada may adopt must take careful

account of those sharp fluctuations in yield and total production which remain the hard core of our Canadian wheat problem at all times. For the vagaries of nature make conscious adjustment of Canadian wheat acreage to the probable demands of an export market extremely difficult. But we have been handicapped in our approach to the wheat problem by our refusal to admit that the great age of expansion is over. We continue to show a singular reluctance to recognize that for the prairie wheat economy the emphasis has definitely shifted from the exciting problems of exploitation to the more exacting problems of conservation. From the experience of the last few years we can now see that, if we are to have a consistent policy, close integration of short-and long-run government policies is vital.

Since Canada must continue, in peace time perhaps more fully than in war time, to expect strong competition in selling abroad, Canadian agricultural policy should be framed so as to insure that all the best, low-cost wheat land will be kept in production and that extensive areas of inferior wheat land will be returned to grass and a more suitable form of agriculture as a logical extension of the Federal Government's Prairie Farm Rehabilitation programme. Furthermore, it must be emphasized that mechanization and improvements in farm machinery have involved a steady increase in the size of the economic farm unit so that effective land utilization in many essentially wheat growing districts requires larger and fewer farms in order to support a smaller agricultural population at a decent standard of living. From the national and social viewpoint, it is most desirable that the prairie economy be re-established on a basis which will reduce the waste of human and material resources in the future. Few prairie farmers can make ends meet to-day on 50-cent wheat, but political tenderness for the "small" farmer, who can produce wheat only at a very high cost—and remain solvent only when he receives a very high price—may well have the effect of keeping marginal and sub-marginal lands in cultivation and act as a stimulus to uneconomic production. On the prairie

plains it is no kindness to keep farm families on small holdings of poor land in deference to some mystic belief in the fundamental virtues of rural life, or out of a natural, though in this case, misguided instinct, to "protect" the "small man".

All this is not to ignore the elementary political fact that governments — and parliamentary oppositions — can never safely forget that the marginal producer still lives "with an appetite, unpaid debts, and a vote," but at the present time it would seem that any movement of population which may result from economic and social readjustments in the wheat economy would be made measurably easier by the current expansion of Canadian industry to meet the pressing war needs of ourselves and our Allies.



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